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Division:  
Economic Policy  
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# Employment tax incentive descriptive report

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## EXECUTIVE SUMMARY

1. **The analysis in this report is based on individual employee tax certificate data, which allows for an analysis of trends in ETI take up across sectors and employees.** The data is only available for the 2013/14 and 2014/15 tax years, due to the lags in tax data reporting. The dataset cleaning procedures are outlined in detail in the document.
2. **Take up of the ETI has been strong. R6.3 billion was claimed between January 2014 and February 2016.** Take up accelerated in the last half of 2015.

	Tax years		
	2013/14	2014/15	2015/16
Total ETI claimed (Rands millions)	47.55	2 261	4 005

*Note results for 2013/14 only cover two months of ETI data (the scheme began in January 2014 and the tax year ends in February 2014). 2015/16 ends in February 2016. All figures on a cash basis.*

3. **In 2014/15, 32 368 firms lodged at least one claim on the ETI.** Whilst this is a large number of firms, this represents 15% of firms in the tax database with eligible employees.
4. **The ETI seems to be successfully reaching its target group of 18-29 year olds, and in particular, the youngest workers within this target group.** For example, whilst the ETI supported around 15 per cent of all jobs in the entire youth cohort of 18 to 29 year olds, it supported 32 per cent of jobs for 18 year olds and 19 per cent of 22 year olds.
5. **The ETI has been claimed for 134 923 jobs in 2014 and 686 402 jobs in 2015.** This implies the ETI supported approximately 5 per cent of all jobs in the tax dataset based on individual employee tax certificates in the 2014/15 tax year.

	2013/2014	2014/2015
<b>Duration of ETI incentive</b>	2 months	12 months
<b>Number of firms claiming</b>	13 399	32 368
<b>Number of ETI supported jobs</b>	134 923	686 402
<b>ETI supported jobs as % of total jobs</b>	1.02%	5.10%
<b>Number of individuals in ETI supported jobs</b>	134 196	645 973

6. If we consider the number of individuals supported by the ETI, which is closer to the Statistics South Africa Quarterly Labour Force Survey definition of employment, we find that there were 645 973 individuals with ETI supported jobs. This constitutes around 5.7 per cent of all individuals in the tax database, and around 17 per cent of all 18 to 29 year olds.
7. In the 2011 discussion document, it was estimated that R5bn would be spent on the ETI over three years, supporting 423 000 jobs, of which 178 000 would be new jobs or jobs saved from loss. Since 2011, changes to the timing of spending, as well as slight differences in design have occurred, but broadly **the estimates of jobs supported are better than initial 2011 projections, once taking into account the somewhat higher than expected claims.**

8. Between January 2014 and the first quarter of 2015, the period of this evaluation, the quarterly labour force survey suggests that formal headline employment grew 1.7 per cent. There were 3.65 million young people between the ages of 18 and 30 in employment by March 2015. Employment growth was not enough to offset the rising number of young people entering the job market, however, and unemployment for this group rose from 39.5 per cent in December 2013 to 42.1 per cent in March 2015. The number of young people unemployed for more than a year rose to 1.62 million.
9. As with all incentive evaluations, changes in the external environment make it harder to assess whether the ETI prevented a further worsening in youth unemployment or not. It is not possible to use descriptive data to determine whether these supported jobs are new jobs created, jobs that have been saved from being lost or jobs that would have been created anyway. To make this estimate, it is necessary to make assumptions about what might have happened in the absence of the ETI. Econometric studies provide a tool for doing this, but are beyond the scope of this paper.
10. **Whilst further work is required to isolate the impact of the ETI from factors such as the influence of firm sector, size and the age and experience of young workers, we note:**
  - **Young workers supported by the ETI in 2014/15 tend to have low levels of experience, with around 57 per cent not having been registered on the tax database in 2013/14.** This is slightly higher than the 55 per cent of young workers in new jobs which were not supported by the ETI.
  - **Wages and job duration for ETI-eligible workers have on aggregate not been affected by the introduction of the ETI.** ETI-supported workers have higher wages on average than workers not supported by the ETI. Job duration is very similar between the two groups.
11. **The ETI does not seem to have caused job losses in firms qualifying for the ETI,** either in the workforce generally or those workers in the same wage bracket, but just above the age criteria. More analysis is required to understand the relative role of the ETI and other firm-level factors that affect overall employment growth and displacement.
12. **There is a clear difference in take up rates by firm size.**
  - **More large firms tend to claim the ETI than small firms.** Around half (53 per cent) of firms with more than 50 workers claim the ETI, compared to 22 per cent of firms with between 11 – 50 workers, and 5 per cent of firms with 10 workers or less.
  - **Large firms are more likely to claim the ETI.** In part, this is because large firms account for the largest number of young workers in the total workforce and they claim the ETI for a larger proportion of the ETI-eligible workforce than smaller firms. It is also likely they face lower average costs in applying for an incentive.
  - **Smaller firms make larger average ETI claims per job, once taking into account job duration.** This is due in part to the fall in average monthly wages paid to young workers as firm size increases.

13. **When analysing firm results by sector, we see that take up is greatest in trade and financial and business services.** ETI take-up is linked to the number of eligible workers in the sector, how many of those workers the ETI is claimed against and average wages.
- **There are more manufacturing firms claiming the ETI than any other grouping.**
  - **Smaller firms are especially important in manufacturing and financial and business services:** almost 64 per cent of ETI claiming firms in manufacturing had less than 50 employees, while in in financial and business services, these firms comprised 70 per cent of all ETI claiming firms in the sector.
14. **Labour brokers are important, but not the main factor behind ETI claims.** Labour brokers made up 11 per cent of the ETI eligible jobs in the individual employee certificates dataset, but 9 per cent of the total ETI claim amount. There appears to be wide variation in how different labour brokers are utilising the ETI.

## 1. INTRODUCTION

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- 1.1. Unemployment remains South Africa's largest policy challenge, and together with low growth and high inequality are the Government's key policy priorities.
- 1.2. **Youth employment is a critical component of the overall unemployment challenge.** Unemployment is higher amongst the youth than in any other age group. According to the latest statistics<sup>1</sup>, 18-29 year olds make up just under 35 per cent of the total working-age population. Of these 12 million individuals, 43 per cent are not in employment, education or training.
- 1.3. **Worryingly, unemployment today reduces the probability of finding a job in the future.** The longer a young person remains unemployed, the lower the probability of finding a job in the future, as the experience gap between an employed person and unemployed person widens<sup>2</sup>.
- 1.4. **The burden of unemployment falls heaviest on the poorest in society.** The probability of getting a job in South Africa is highly linked to education, which is in turn very heavily influenced by the income of parents. In addition, knowing someone who is in employment is a critical predictor of being able to get work in the future. Individuals who grow up in poor households are less likely to be educated and less likely to know the people who can get them a job.
- 1.5. This raises **severe consequences for both the youth and the economy.** Higher employment is critical for helping move out of the poverty trap. For the country, high levels of unemployment place the country on a lower growth path, as lost human potential is not translated into faster growth. The National Development Plan notes that a frustrating and destabilising environment where young people cannot get work can contribute to violence, crime, alcohol abuse and other social ills. Unemployment is associated with social problems such as poverty, crime, violence, a loss of morale, social degradation and political disengagement.
- 1.6. **Over the period of this evaluation, youth employment outcomes did not improve significantly.** There were 2.83 million young people between the ages of 18 and 30 in formal employment by March 2015, up from 2.78 million in December 2013. But this 1.7 per cent growth in employment was not enough to offset the rising number of young people entering the job market, and unemployment for this group rose from 39.5 per cent in December 2013 to 42.1 per cent in March 2015. The number of young people unemployed for more than a year rose to 1.62 million by March 2015, from 1.56 million in December 2013.

### ***ETI Policy Rationale***

- 1.7. The Employment Tax Incentive was introduced by Government as part of a package of programs to address the social and economic problem of youth unemployment.
- 1.8. Although the causes of youth unemployment are varied, research highlights in particular:

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<sup>1</sup> Quarterly Labour Force Survey, Q2 2015

<sup>2</sup> For a longer discussion on Youth Unemployment see OECD, 2012 "African Economic Outlook" available at <http://dx.doi.org/10.1787/aeo-2012-en>

- Young workers are often inexperienced and even after education may not be “job ready”. Inexperienced workers require training which firms are ill-equipped to provide, as they may lack the skilled staff to undertake the training or the training costs may be prohibitively high.
  - Perceptions of difficult labour relations and regulations make firms reluctant to hire “untested” workers, since there is a fear that these untested workers could impose a heavy burden on the firm.
- 1.9. The ETI aims to stimulate employment of 18-29 year olds in the formal sector by reducing the risks and costs associated with hiring younger workers, who tend to be inexperienced.
  - 1.10. It **targeted formal sector employers, by using a tax incentive**. The Quarterly Labour Force Survey shows that the formal sector accounts for three quarters of young people’s jobs.
  - 1.11. It sought to **encourage new jobs** by only being eligible to workers who were hired after 1 October 2013, and by limiting the incentive to two years, by which time the worker will have received more skills
  - 1.12. It sought to **lower the cost of hiring an additional worker** as an offset to the costs and risks described above
  - 1.13. It sought to **prevent abuse** by legislating that claims had to be linked to minimum wages and imposing heavy penalties on transgressors
  - 1.14. It sought to **avoid subsidising higher earning young workers** by lowering the amount that could be claimed beyond a certain point
  - 1.15. It sought to **prevent displacement of older workers** by imposing heavy penalties for those who replaced older workers to access the incentive and possible disqualification by the Minister of Finance
  - 1.16. It sought to **extend the incentive** to all workers under special economic zones

### ***ETI Policy Design***

- 1.17. The incentive encourages employers to hire workers between the ages of 18 to 29 years, who earn less than R6 000 per month.
  - These employers must be registered for employees’ tax (PAYE), and must be tax compliant.
  - Public sector employers and domestic workers are not eligible.
  - Employees must have a valid ID and cannot be connected or related to the employer.
  - Workers must earn at least the minimum wage, where applicable and as prescribed by the applicable wage regulating measure, and newly employed on or after 1 October 2013.
  - Workers are eligible for 24 monthly claims.

- 1.18. An employer claims the incentive by reducing PAYE payments for every qualifying employee.
  - Employers submit monthly reconciliation forms (“EMP201s”) to indicate total PAYE withheld from employees and transferred to SARS. The ETI is offset against this cash flow.
  - Employers submit annual individual employee tax certificate information (“IRP5s”), to reconcile their monthly submissions to individual payroll data.
  - Employers who have insufficient PAYE liability can claim the ETI as a cash refund. The cash refunds are not captured in the data set that we analyse.
- 1.19. **The value of the incentive differs according to the employee’s monthly salary.** Although employees qualify for two years of support via the ETI, the support halves in the second year.

**Table 1: ETI monthly incentive value by monthly wage of eligible worker**

Monthly remuneration (R)	1 000	1 500	2 000	2 500	3 000	3 500	4 000	4 500	5 000	6 000
Monthly value of incentive (R) in first year	500	750	1 000	1 000	1 000	1 000	1 000	750	500	0
Monthly value of incentive (R) in second year	250	375	500	500	500	500	500	375	250	0

## 2. EVALUATION OF INCENTIVES

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- 2.1. The evaluation of an incentive requires a consideration of:
- 2.2. **Incidence of the incentive.** Who was claiming the incentive, and which workers it was claimed against; was the incentive claimed by those who were originally targeted
- 2.3. **Positive effects relative to the intended outcome.** In this instance, how many jobs were supported, what were the impacts on beneficiaries
- 2.4. **Negative effects.** In the case of the ETI a key question is if there was displacement of other workers? Did the ETI lower wages of the workers it was claimed against?
- 2.5. **Fiscal effects.** How does the ETI compare to other incentives? How large were the deadweight losses (i.e. how many jobs were new?)
- 2.6. **Administration considerations.** How easy was the incentive to use? What constraints does administration place on incentive design?
- 2.7. **It is important to recognise that all incentive evaluations are to some degree imprecise.** In an ideal world, we would hold all external conditions constant, as is done in the natural sciences, in order to isolate the impact of the policy change. However, in reality, policy changes occur in real time, with a constantly changing global and local environment. As a result we find:
- 2.8. **It can be difficult to isolate the effect of a policy.** Outcomes in the dataset such as employment can be due to changing economic circumstances, rather than the introduction

of an incentive. Equally, key areas we are concerned about such as wages or employment duration are affected by the skills levels of workers and their work experience, which are not readily observable from administrative data. To identify the impact of the incentive, it is necessary to decompose any changes observed into an existing trend and the impact of policy. However, identifying the trend can be challenging, and the methodology used can influence results.

- 2.9. **Incentives take time to affect behavior.** Very few people respond immediately to policy announcements, and it takes time for awareness to filter into decision making. A short period of time is unlikely to be sufficient to investigate the full impact of the incentive. Equally, however, as time passes and awareness increases, it becomes more difficult to disentangle the effects of the policy and other factors, such as economic performance.
- 2.10. The different sources of information to evaluate an incentive each suffer from drawbacks.
- 2.11. **Quantitative data are open to interpretation.** Assumptions are made in any data analysis, which can affect results. This is why these need to be laid out in a systematic fashion and the dataset interrogated for potential bias. Analysis should use different assumptions where bias is suspected in order to monitor the impact of these assumptions on the final outputs.
- 2.12. **Qualitative data such as consultations are open to interpretation.** Often, interested individuals are more likely to respond than those who are ambivalent, potentially skewing the results. It is not always possible to be certain that you are consulting actual decision makers, and responses from those questioned may be based on perception rather than actual behavior. It is hard to check the strength or impact of these assumptions.
- 2.13. A descriptive report such as this does not enable us to answer all these questions. However, it does provide the opportunity to consider the incidence of the incentive, as well as some preliminary analysis on the positive and negative effects. Econometric studies attempt to understand causal links and more difficult questions such as whether the jobs supported by the ETI are “new”, or are jobs that would otherwise have been lost. This is an important compliment to any analysis of the ETI.

### 3. DATA

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- 3.1. This report makes use of a unique dataset made available to National Treasury by SARS for the purposes of policy evaluation. This dataset has not been used in this manner for detailed policy evaluation before, and as a result, significant attention is devoted to explaining the dataset, in order to inform policy makers, social partners and interested members of the public.

#### ***Tax data available on the ETI***

- 3.2. Tax data allows monitoring of the ETI through two types of submissions:
  - **Monthly employer reconciliations** (EMP201) and bi-annual employer reconciliations (EMP501) summarise the rand amount claimed by firms for the ETI and allow for an analysis of the types of firms who are claiming the ETI.



- **The individual employee certificates** (IRP5 and IT3) provide detail on the individual employees the ETI is claimed against, as well as the types of firms employing the individuals.
- 3.3. Announcements on the amount of money claimed for the ETI are based on the monthly employer reconciliations (EMP201s), because they are available in “real time” (with a one month lag).
- 3.4. However, since this form only contains estimates on rand amounts claimed per firm, and does not contain any information on individuals, it cannot estimate the number of beneficiaries or be used for a review of the effectiveness of the ETI.
- 3.5. **The more detailed individual employee certificates (IRP5 and IT3) are used as the basis of this report.** SARS released this information to National Treasury as part of an anonymised tax database<sup>3</sup> for the 2013/14 and 2014/15 tax years, with a subset of the variables.
- 3.6. The individual employee tax certificate data are only available with a significant time lag of between 12 and 18 months, since they are only filed once a year, in May.

#### ***The individual employee tax certificate dataset (IRP5 / IT3)***

- 3.7. **The individual employee tax certificate dataset supplied by SARS contains information on each registered employee**, drawn from each IRP5 / IT3 certificate submitted by a firm. These IRP5 / IT3 certificates contain information such as the date of birth of the worker; the period the individual was employed from and to; the income earned by the individual at the firm over the period according to different types of income codes; an encrypted South African ID number; an encrypted employer PAYE reference number; whether the firm claimed the ETI for the individual; and if so, the amount claimed.
- 3.8. **This dataset includes ALL firms<sup>4</sup> which have submitted IRP5 / IT3 certificates.** The data set captures the entire population of formal sector firms who could claim the ETI and those that do. Econometric studies based on this dataset will therefore not be subject to sampling bias.
- 3.9. While this is the most complete data set on formal employment, it is still limited to the information contained in tax forms. This limits the complexity of the analysis of individuals’ and firms’ characteristics. **In addition, there may still be potential sources of uncertainty and error in the results presented in this paper. Sources of this could be:**
- **Certain types of firms may not submit these returns**, or certain type of jobs or individuals may be excluded from these submissions. An IRP5 certificate is issued for an employee if remuneration is paid and tax on that remuneration has been deducted. If no tax has been deducted, and the employee remuneration is equal or greater than R2 000 per year, then an IT3 certificate is issued. Firms with workers that only earn below the R2 000 per year will not be captured in the database.
  - **There may be data entry errors** that occur when firms (or the representative of the firm responsible) enter certificate fields. While we do statistical checks, we cannot be certain all errors have been identified.

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<sup>3</sup> All identifying information of taxpayers was anonymised and encrypted, so that sensitive information, such as earnings, age, ID numbers and PAYE reference numbers cannot be traced by an individual or firm.

<sup>4</sup> We formally define what we mean by a ‘firm’ in the definitions section of the report.

- The dataset does not contain any confidential information, including ID numbers. As a result, **certain variables such as age are based on a separate entry on the IRP5 / IT3 form, which are often incorrectly filled in.** This introduces a margin of error and could cause a difference in this paper’s results and published SARS data.
- **The dataset is drawn at a point of time, and does not capture submissions or revisions to the data made after that point on firm tax form submissions.** Furthermore, if a PAYE liability is incorrectly stated in the IRP5 forms, any adjustments (such as a further payment to or refund from SARS) will not reflect in future individual PAYE statements.

### ***Procedures for cleaning tax data***

- 3.10. The individual employee certificate data has not been used before in the evaluation of an incentive, and required cleaning to make it suitable for policy analysis. The section below details the choices in this data cleaning in order to promote transparency. The full impact on the dataset is outlined in more detail in Table 3.
- 3.11. **Multiple versions of the same certificate were dropped.** A number of individuals have multiple certificates with the same firm for the same tax year, but only one is actually submitted on the basis of tax liabilities.<sup>5</sup> These represented less than 0.02% of all observations. Unfortunately, it is not possible to identify which of the duplicate IRP5 certificates were the most recent. Only the first record (in other words, the record first lodged with SARS) was kept, on the assumption that data extraction was consistent and the first record would be the most accurate.
- 3.12. **Any IRP5 certificates issued to non-individuals, such as partnerships, were dropped.** These were identified by the field entitled “Nature of Person Description”. This constituted 17 per cent of the original individual employee certificates. It is necessary to exclude these observations so that our analysis is of actual worker and firm relationships.
- 3.13. **Entries with no ID numbers were dropped** to facilitate comparisons of worker employment histories over time. As a result, the analysis excludes foreign workers, asylum seekers and those whose ID numbers were incorrectly completed in the PAYE form. This amounted to 4% of observations. The impact on the results should be small: individuals without ID numbers average ETI claim was R175. The median age of individuals without an ID is 34 years, and median earnings are R27 363, almost five times the monthly rate workers eligible for the ETI earn.
- 3.14. **Obvious errors in earnings were removed.** Five observations were removed, as annual earnings were higher than R145 billion in IRP5 2014 dataset and R13.5 billion in the IRP5 2015 dataset, likely caused by incorrect data entry. The small number of observations is unlikely to affect the results.
- 3.15. **Those below 15 and over 65 years old were removed** to be consistent with the generally accepted age range of the labour market. This is unlikely to affect the analysis of the ETI: the median age of those under 15 was 9 and total ETI claims over 14 months was less than

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<sup>5</sup> This could be as a result of firms issuing a new certificate in the event of mistakes or changes to employment duration

R60 000<sup>6</sup>. The average ETI claim per worker over 65 was R1.15, and median earnings were well above that of the ETI.<sup>7</sup>

- 3.16. Individuals are defined as those with individual employee certificate and a unique encrypted South African ID number.
- 3.17. **Firms are identified as employer entities with a unique (anonymised) firm PAYE reference number.** This is not exactly the same as the most commonly used description of a firm, since a large business entity could run multiple payrolls. As a result, there may be some double-counting in job movement, as a company may have multiple tax reference numbers and individuals may shift between these tax reference numbers – particularly if the firms make use of decentralised payrolls.
- 3.18. **The main unit of analysis in the dataset is the “job”:** a unique individual (using encrypted ID number) and a unique firm (using PAYE Reference number) combination. In 2013/14 there were 13 187 230 jobs and there were 13 467 902 jobs in 2014/15.
- 3.19. **A job spell is the length of time an individual works for a firm over an uninterrupted period,** and is indicated by the presence of a unique IRP5 certificate. Analysis of ‘job spell’ helps us understand the nature of the employment contract. In our dataset there were 14 644 822 job spells in 2013/14 and 15 015 996 in 2014/15.
- 3.20. **One person working for the same firm for multiple job spells would still be counted as a single job.** Individuals with multiple job spells in the same company make up approximately 5% of the total dataset. Analysis of ‘jobs’ helps us understand the impact of the ETI on the willingness to hire. In 2013/14, there were 13 187 230 jobs and there were 13 467 902 jobs in 2014/15.
- 3.21. **An individual can have multiple jobs in one year.** Although an individual may only have one job per firm (per tax year) she may have another job in another firm. As a result, there may be more jobs than individuals, as demonstrated in table 2.

**Table 2: The key units of analysis in the database**

	2013/14	2014/15
Unique individuals with SA IDs between 15 and 65 years old	11 168 224	11 370 395
Unique firms	243 635	235 409
Jobs	13 187 230	13 467 902

<sup>6</sup> Errors in date of birth entries could be driving this. As mentioned elsewhere, age relies on date of birth entries. A more accurate measure would be to correlate with the ID numbers on the individual employee tax certificate. However, these were removed and encrypted in the data anonymisation process undertaken by SARS, so this cross-check was not possible.

<sup>7</sup> Excluding significantly older workers is unlikely to bias results, as median earnings are well above rates the ETI could be expected to have any impact on employment prospects.

**Table 3: Dataset cleaning procedures**

Cleaning Procedures	Observations		Earnings between 2013/14 and 2014/15			Age		ETI claims between 2013/14 and 2014/15		Firm characteristics	
	Number	% total	Total (R bn)	Avg (R)	Median (R)	Avg	Median	Total in 2014/15 (R mn)	Total in 2014/15 (#)	Firm Size	Industry (% of observations)
All	35 715 278	100.00%	12 261	343 312	39 088	40.2	37	16 763	35 715 278	52% in firms with 1000+ workers; 23% in firms with 100 to 1000 workers	40% in Financial Services, 13% in Manufacturing
<b>Exclusions</b>											
Duplicate certificates	3 737	0.00%	-					-			
Non-Individuals	6 070 997	17.00%	511	84 188	20 023	58.7	62	233.2	6 070 997		
Blank IDs	1 420 074	4.00%	138	97 200	27 363	36.7	34	247.9	1 420 074	31% in firms with 1000+ workers; 29% in firms with 100 to 1000 workers; 21% in firms with 11 to 50 workers	30% in Financial Services; 14% in Agriculture; 13% in Manufacturing
Earnings system error IRP5 2014	2	0.00%	291	145bn	145 bn	>50	>50	-	-	2 in firms with 11 to 50 workers	1 in manufacturing; 1 unknown
Earnings system error IRP5 2015	3	0.00%	7 898	2 633bn	72bn	>40	>30	-	-	2 in firms with 11 to 50 workers; 1 in firms with 100 to 1000 workers	2 in manufacturing; 1 in Transport and Communication
Starting age below 15	51 175	0.10%	1	14 807	7 047	8.7	10	0.06	51 175	60% in firms with 1000+ workers; 23% in firms with 100 to 1000 workers	77% in Financial Services
Starting age above 65	2 849 975	8.00%	164	57 463	17 828	74.2	73	3.27	2 849 975	90% in firms with 1000+ workers	91% in Financial Services
<b>Cleaned dataset</b>	<b>28 394 829</b>	<b>79.5%</b>	<b>3 416</b>	<b>120 310</b>	<b>44955</b>	<b>36.0</b>	<b>34</b>	<b>16 505</b>	<b>28 394 829</b>	<b>47% in firms with 1000+ workers; 26% in firms with 100 to 1000 workers</b>	<b>30% in Financial Services, 15% in Manufacturing</b>

Note all average and median numbers refer to the period between 2013/14 and 2014/15.

### **Construction of key variables from the dataset**

- 3.22. The individual employee certificates are compiled for tax purposes. It is necessary to make adjustments to the data in order to derive economically meaningful variables.
- 3.23. **Starting Age** is defined in this case as the age when the individual started the job. It is calculated using the date of birth and the date provided for the start of the employment period.
- This definition of age is advantageous as it enables us to check for eligibility at the time of employment under the ETI. One disadvantage of calculating age this way is that we are not able to check eligibility if an individual remains in the same ETI-supported job and turns 30 within the same tax year.
  - The accuracy of this variable is largely dependent on the accuracy of data entry for the date of birth and start date fields. It is not possible to check the accuracy of these estimates with ID numbers as these were encrypted and anonymised.
- 3.24. **Duration of employment** within the tax year is calculated as the difference between the end and start date of the period of employment as specified on the IRP5 certificate. There are a number of factors which may affect the accuracy of this estimate.
- As this is not a compulsory field, employers may not have paid much attention to the accuracy of these numbers. If end and start dates may not accurately reflect the actual dates the employee started or ended the period of employment, estimates of duration of employment or eligibility for ETI may be incorrectly calculated. It is impossible to know the magnitude or in which direction this will affect the results.
  - Obviously incorrectly completed forms result in errors such that end dates precede start dates, which occurs in less than 1 per cent of observations. Less than 0.1% of observations have missing values in either the job start date and job end date. Measurement error of this nature is likely to be randomly distributed and therefore unlikely to affect results.
- 3.25. **Previous work experience** in the 2014/15 tax year is represented as a dummy/binary variable which indicates whether the individual (as identified by their unique encrypted ID number) was present in the dataset for the 2013/14 tax year
- 3.26. **Earnings** are calculated as the sum of gross non-taxable income amount, gross retirement fund income amount and gross non-retirement fund income account. This is the amount earned in that job over the tax year.
- 3.27. **Monthly earnings** are calculated by dividing the earnings amount by the period worked (converted into months). Monthly earnings are required as ETI eligibility is based on monthly earnings.
- This variable is dependent on the reliability of the job duration variable.
  - **Furthermore, as there is no information on the hours worked, the monthly earnings variable could be affected.** Those individuals who work more hours (for example through overtime, or if their work period is inaccurately captured) will have calculated monthly incomes higher than their actual monthly income; those who

work fewer hours will have calculated monthly incomes lower than their actual incomes. It is impossible to know the magnitude or in which direction this would affect the results.

- Errors in monthly earnings estimates could also impact our assessment of the eligibility of claims. Provided there is not a systematic difference in hours worked across different age groups, this should not affect the results of this study in terms of the relative impact on the youth and other age groups. If there is a systematic difference in hours worked across industries, it would affect how to interpret trends across industries.
- 3.28. **Firm-level employment** is calculated as the weighted sum of full-time yearly equivalent employment within that establishment. Thus a worker who worked only half a year would count as 0.5, compared to a worker employed for the full 12 months, who would count as 1. As it is reliant on an assumption on job duration, it suffers from the same problems as outlined in 3.26.
- 3.29. **The industry/sector of employment** is based on the sectors reported in the IRP5 / IT3 and is aggregated to firm level through taking the mode (the most common) sector of employment reported.
- The industry classification used here is a self-reported measure, and is not strictly comparable to SIC classifications used by Stats SA.
  - There are 12 533 firms that could not be classified by sector in IRP5 / IT3 2015 data. This amounts to 5% of firms. This means analysis of sector trends in relation to other data sets should be treated with some caution.
- 3.30. There are a **number of individual characteristics which cannot be determined** from the anonymised data currently available to National Treasury, and are thus not used in the analysis, including :
- Gender;
  - Education;
  - Race;
  - Location.

### ***Adjusting the data set for compliance***

- 3.31. **With any incentive, there will be ineligible claims.** SARS undertakes regular audits in order to ensure that ineligible claims are investigated and the monies returned. However, the dataset available to National Treasury does not incorporate revisions to incorrect claims, so it is necessary to exclude these invalid claims in order to ensure we are able to measure the impact of the ETI as it is being applied in reality.
- 3.32. This section highlights what steps were taken to determine whether or not an ETI claim is recognised as compliant. If an ETI claim is considered non-compliant according to the criteria defined below, the information relating to the individual worker will remain, but the ETI claim will not be recognised.

- 3.33. The individual employee certificate dataset has an initial estimate of R16.8bn in ETI claims in 2013/14 and 2014/15, well above the estimates for monthly employer reconciliations of R2.5bn over this same period.<sup>8</sup> R13.1bn of this is due to 65 entries in 2013/14 which have an identical claim of R202 020 202.02 in the individual employee certificates.
- 3.34. When we exclude these entries, the individual employee certificate dataset is much closer to the monthly employer reconciliations, although we still perform further compliance checks, the full details of which can be found in Table 5.
- 3.35. The two critical variables to check for compliance are the age of the person when starting the job, and the monthly income earned by the individual. Both of these variables are derived from the data available in the dataset.
- 3.36. **The starting age of a worker** is derived by subtracting the job start date and the date of birth. It is important to note that since neither of these date fields has previously been used in tax compliance, there may be substantial errors in both data fields.
- 3.37. **The monthly income** is calculated by dividing total gross earnings by job duration (giving daily earnings) and assuming a 22.75 day month.
- 3.38. **We exclude observations where the amount of ETI claimed was above the maximum allowable amount that can be claimed.** Any ETI claims by a firm for a given individual more than R2 000 for 2014/15 and R12 000 in 2014/15 were excluded, based on the maximum of R1 000 per month that can be claimed for an individual in the first year of the ETI.<sup>9</sup>
- 3.39. We exclude observations where the average monthly earnings of individuals in ETI supported jobs were above R6500, in a given tax year. ETI legislation only allows claims for individuals earning monthly income of up to R6000 per month. However, it is conceivable that employees receive commission or a bonus in one month that may push them above the ETI limit in that month, before falling back on their basic gross salary in other months. It would therefore not be desirable to exclude all ETI related information on individuals who may for a limited time exceed the R6 000 monthly limit.
- 3.40. We exclude claims where the starting age in ETI supported jobs were outside the eligible age range of 18 years old to 29 years old. We do not exclude individuals who turn 30 during the course of the tax year, and who may have become ineligible over the course of the tax year.
- 3.41. **We exclude observations where the ETI supported job existed before 1st October 2013.** The ETI act aimed to support jobs not yet created, but the Act does allow those who started new jobs from the 1<sup>st</sup> October to be claimed for from January. This was designed to prevent employers firing recently hired employees and re-hiring the same employees to take advantage of the incentive. There are 152 277 of these observations; the average ETI claim for these observations over two years is R2 526.

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<sup>8</sup> Based on cash data for tax years, as reported in monthly employer reconciliation data.

<sup>9</sup> The maximum amounts differ since the IRP5 2014 dataset contains only 2 months of potential employment through the ETI, and IRP5 2015 a full 12 months. These calculations are based on a maximum of R1000 per month in the first year of claiming the ETI.

- 3.42. We also exclude all observations where the ratio between ETI claimed in the year and the annual earnings of the individual was over 0.5, implying calculation or system error. This accounted for 59 520 observations, with an average annual ETI claim amount of R4 672.
- 3.43. **We could not exclude those non-compliant with minimum wage legislation.** Compliance to minimum wage legislation is a legislative requirement to be eligible for the ETI, but minimum wages are not reported in the tax certificates. We are unable to estimate with any precision which legislated minimum wage applies to each worker, since these are set through a combination of sectoral determinations, bargaining council agreements (some extended) and firm-level agreements.
- 3.44. **The outcome of these exclusions yields results broadly consistent with SARS' estimates of compliance.** We therefore are reasonably confident that these numbers accurately reflect actual claims, although there will naturally be some measurement error. SARS investigations into non-compliance continue, in order to ensure that ineligible amounts are reclaimed.

**Summary of data cleaning procedures on individual employee certificate data**

- 3.45. In summary, National Treasury analysis of the IRP5 / IT3 data excludes all individuals who do not have a South African ID, or those whose age or monthly income would make them ineligible to receive the ETI. It also excludes all obvious data entry errors.
- 3.46. These cleaning procedures bring the two data sets closer, although discrepancies with the employer reconciliation data remain. The individual employee certificate dataset (based on IRP5 / IT3) shows total rand claims are slightly higher than the information released publicly on the ETI in 2014/15, although the discrepancy in 2013/14 is much proportionally larger.

**Table 4: Comparisons of ETI claim amounts across the two tax databases**

Total ETI claimed (Rands millions)	Tax years		
	2013/14	2014/15	2015/16
Individual employee certificate dataset (IRP5)	R 147	R 2 456	Not available
Official SARS ETI revenue estimates (EMP201s)	R 47.55	R 2 261	R 4 005

*Note results for 2013/14 tax year only cover two months of ETI data (the scheme began in January 2014 and the tax year ends in February 2014. 2015/16 ends in February 2016. All figures on a cash basis. Note that the employee tax certificate data reported here has been cleaned as detailed above.*

- 3.47. It is our assessment that the monthly employer reconciliations should continue to be used to assess total claims of the ETI, which is a more complete dataset, that is adjusted as errors come to light<sup>10</sup>. However, in order to evaluate the ETI it is necessary to use the individual employee certificates in order to understand how workers are being affected by the incentive.<sup>11</sup>

<sup>10</sup> The individual employee certificate data is not adjusted to reflect any problems that come to light.

<sup>11</sup> Therefore analysis of total claims should be in percentage terms to avoid confusion about total ETI claims.



**Table 5: Description of compliance criteria applied to ETI claims**

Compliance criteria	Age		ETI claims from 2013/14 to 2014/15			Earnings from 2013/14 to 2014/15		Firm characteristics of non-compliant observations								
	Average	Median	R bn	Jobs (#)	% total jobs	Total (R bn)	Median per job (R)	Industry (% of observations)	Firm Size (% of jobs)							
									1 to 5	5 to 10	11 to 50	51 to 100	100 to 1000	1000+		
All	36.0	34	16.5	1 107 743	100%	3 416.00	50765	29% financial services; 15% manufacturing; 11% trade	3	4	14	8	16	45		
Data entry error (ETI claim of R202020202.02)			13.13	65	0.0%											
ETI amount claimed > 2000 & tax year == 2014	31.4	27	0.07	2 286	0.0%	0.15	66544	22% financial services; 19% trade; 18% non-govt community services	10	11	29	11	27	13		
ETI amount claimed >12000 & tax year == 2015	23.2	23	0.13	2 404	0.0%	0.08	31400	77% trade; 6% agriculture	1	1	5	5	12	75		
ETI claimant starting age >29	41.8	40	0.08	46 879	0.2%	3.88	41000	23% manufacturing; 23% financial services; 14% trade; 11% non-govt community	16	16	42	8	14	4		
ETI claimant starting age < 18	40.0	39	0.01	4 529	0.0%	0.07	8880	28% financial services; 26% agriculture; 24% trade	1	2	12	1	36	38		
Monthly Earnings > R6500	27.2	25	0.24	111 048	0.4%	7.56	43394	32% financial services; 23% manufacturing; 13% trade	5	5	15	7	35	34		
Job started before October 2013	28.9	26	0.38	152 277	0.6%	7.05	26141	26% financial services; 24% agriculture; 17% manufacturing; 15% trade	6	7	21	8	31	28		
Ratio of total ETI claimed for job to total earnings is greater than 0.5	23.2	23	0.28	59 520	0.2%	0.25	1819	61% trade; 12% financial services; 11% agriculture	1	1	5	5	18	71		
<b>Compliant dataset</b>	<b>23.5</b>	<b>23</b>	<b>2.60</b>	<b>821 456</b>	<b>3.1%</b>	<b>13.55</b>	<b>11464</b>	<b>35% financial services; 23% trade; 14% agriculture; 12% manufacturing</b>	<b>1</b>	<b>2</b>	<b>10</b>	<b>8</b>	<b>34</b>	<b>46</b>		

*% of IRP5 certificates or jobs refers to the number after data cleaning procedures outlined above were used.*

#### 4. DESCRIPTIVE STATISTICS OF EMPLOYMENT TAX INCENTIVE

- 4.1. All data used in this section is based on the 2013/14 and 2014/15 individual employee tax certificates, cleaned as per the sections outlined above.
- 4.2. **Uptake of the ETI increased steadily from the first two months of the ETI to February 2015.** The incentive was claimed for 5 per cent of all jobs recorded in the tax system in 2014/15, up from 1 per cent in 2013/14.
- 4.3. The individual employee certificate data suggests that **the ETI has been claimed for 134 923 jobs in 2014 and 686 402 jobs in 2015.** This is significantly higher than previous estimates of the minimum jobs created by the incentive, which used a broad rule of thumb to calculate this number, and found a total of 254 151 jobs supported in 2014.<sup>12, 13</sup>
- 4.4. If we consider the number of individuals supported by the ETI, which is closer to the Statistics South Africa Quarterly Labour Force Survey definition of employment, we find that there were 645 973 individuals with ETI supported jobs. This constitutes around 5.7 per cent of all individuals in the tax database, and around 17 per cent of all 18 to 29 year olds.

**Table 6: Key outcomes of the Employment Tax Incentive**

	2013 /2014	2014 /2015
<b>Duration of ETI incentive</b>	2 months	12 months
<b>Total ETI claimed (R millions)</b>	147	2 456
<b>Number of ETI jobs</b>	134 923	686 402
<b>ETI supported jobs as % of total jobs</b>	1.02%	5.10%
<b>Average cost per job (R )</b>	1 090	3 578
<b>Number of individuals in ETI supported jobs</b>	134 196	645 973

*Note the cost per job is based on the ETI claims as per the individual tax certificate dataset, rather than the monthly employer reconciliation numbers. The cost per job would fall in 2013/14 if the employer reconciliation data were used and be virtually unchanged in 2014/14.*

- 4.5. **Broadly, the estimates of jobs supported are better than initial 2011 projections, once taking into account the somewhat higher than expected claims.** In the 2011 discussion document, it was estimated that R5bn would be spent on the ETI over three years, supporting 423 000 jobs, of which 178 000 would be new jobs or jobs saved from loss.
- 4.6. Since 2011, changes to the timing of spending, as well as slight differences in design have occurred, but broadly the estimates of jobs supported are in line with initial 2011

<sup>12</sup> Before the individual employee certificate data was available, the number of jobs supported by the ETI had to be estimated from the monthly employer reconciliation data. The estimate used the fact that the maximum claimable amount per person per month was R1 000, and by dividing total claims by R1 000 a minimum number of jobs supported was estimated. This estimating technique can only be applied for the 2014 calendar year. In 2015, some employees could be in their second twelve months of claiming the ETI, where an employer may claim a maximum of R500 per month per employee.

<sup>13</sup> This was the last response on the number of beneficiaries in PQ 3226 (dated 29 August 2015), which stated the minimum number of people for who the ETI was claimed in December 2014. This number was different to that claimed by the President in the SONA 2015 (“R2 billion has been claimed to date by some 29 000 employers, who have claimed for at least 270 000”) due to data updates to the employer reconciliation numbers.

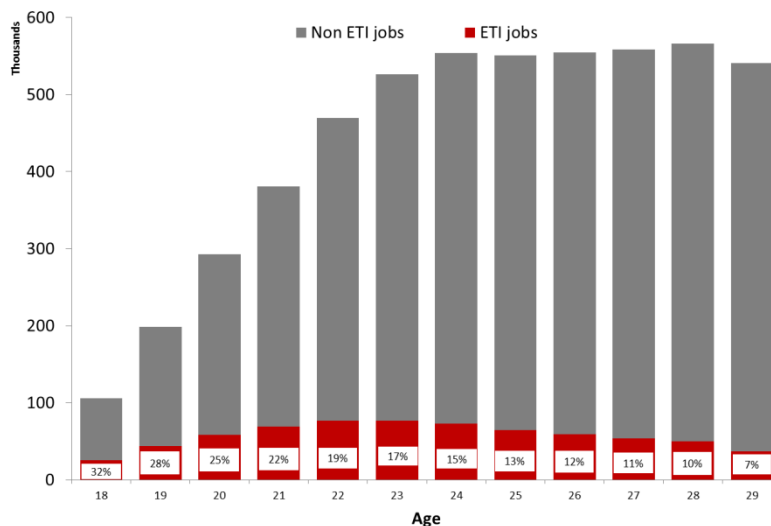
projections, once taking into account the somewhat higher than expected claims. For example, in the original survey design, it was envisaged that the ETI would be open to new jobs for 18 to 29 year olds earning R5 000 a month or less, as well as existing jobs for 18 to 24 year olds earning less than R5 000 a month or less. Following consultations, the wage eligibility was increased to R6 000 a month, but eligibility was restricted to new jobs, as defined as those created on or after 1<sup>st</sup> October 2013.

- 4.7. It is not possible to use descriptive data to determine whether these supported jobs are new jobs created, jobs that have been saved from being lost or jobs that would have been created anyway. To make this estimate, it is necessary to make assumptions about what might have happened in the absence of the ETI. Econometric studies provide a tool for doing this.
- 4.8. Based on these costs, we estimate the cost per job to be around R3 578. This will vary according to firm and employee type.

**Which workers are firms claiming for?**

- 4.9. **The ETI seems to be successfully reaching the target group of 18-29 year olds**, in particular the younger cohort of this age group. The majority of the jobs supported by the ETI in the tax year 2014/2015 are for those between 21 and 25 years of age (Figure 1). The ETI supported 76 619 jobs for 23 year olds, the highest number for any eligible age.

**Figure 1: Age distribution of jobs for 18 – 29 year olds with average monthly wage of R6 500 or less**



*Note: Percentages indicate the proportion of total ETI eligible jobs that were supported by the ETI.*

- 4.10. **In part, this support is due to general employment trends.** Workers between 21 and 25 are the most likely to be employed amongst the youth, even amongst those who do not claim the ETI.

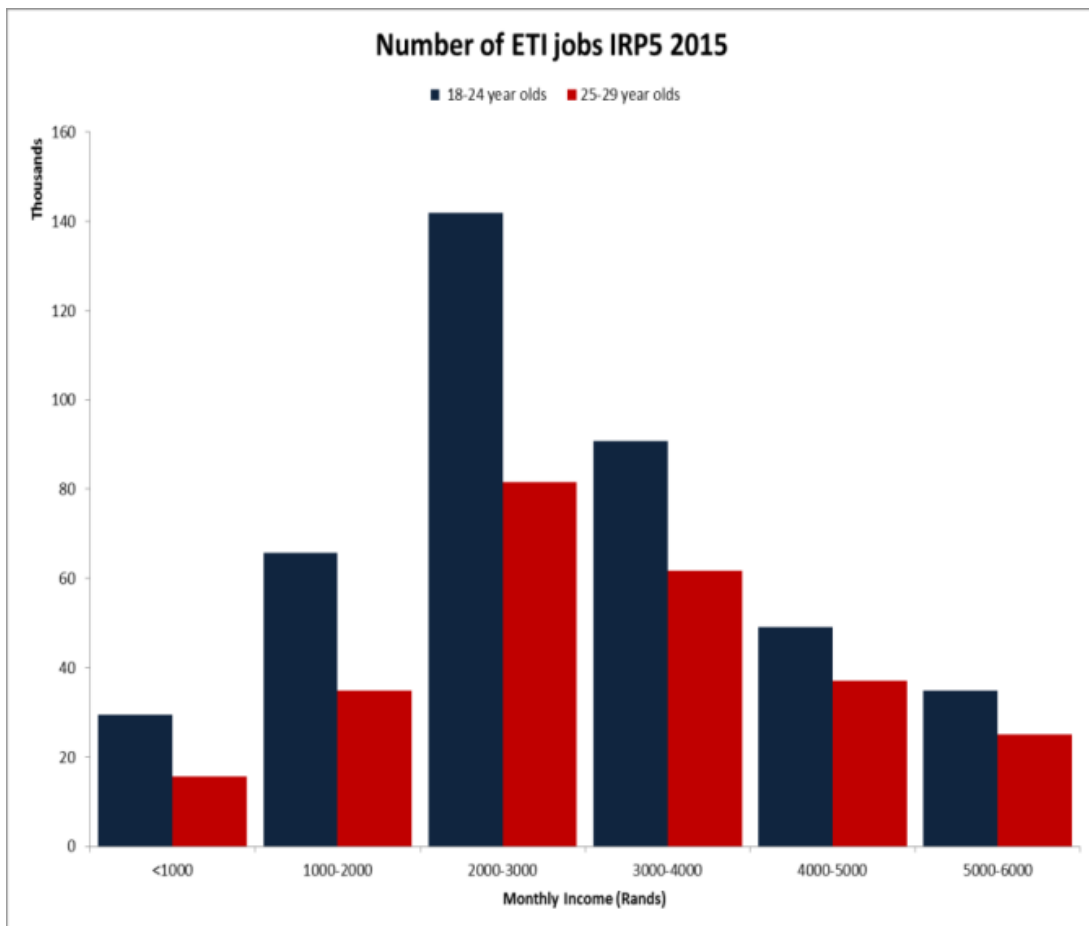
- 4.11. **The ETI seems to be providing the most support to the youngest youth workers.** Although the ETI supported around 15 per cent of all jobs across the entire youth cohort, it supported 32 per cent of jobs for those who are 18 years old and 19 per cent of those who are 22 years old, compared to just 10 per cent of those who are 28 years old. This may be because younger workers in the ETI group are more likely to be in ‘new’ jobs.
- 4.12. **The difference in age composition between those claiming the ETI and those not claiming the ETI is likely to have a bearing on other employment outcomes such as wages and job duration.** Therefore care should be taken in making direct comparisons between these groups, particularly since it is not possible to control for other critical factors such as education and work experience.
- 4.13. **In new jobs for workers between 18 to 29 years, earning less than R6 500 per month, the ETI seems to provide slightly more support to younger workers,** although the differences are small. The proportion of new jobs given to those under 24 is 62 per cent for ETI-supported workers, and 59 per cent for those who are not supported by the ETI. Econometric analysis would be required to hold constant factors such as firm and industry type to see if these differences are meaningful.

**Figure 2: Age distribution of new jobs in 2013/14 and 2014/15 for 18 – 29 year olds with average monthly wage of R6 500 or less**



- 4.14. **The ETI does not seem to have favoured the lowest-wage jobs eligible for the scheme.** Take-up of the incentive is highest for workers earning between R2 000 and R4 000 pm, where firms can claim R1 000 per eligible worker, the maximum ETI claim. Workers earning less than this amount make up just 9 per cent of all claims, a relatively small proportion of total claims.

**Figure 3: Wage distribution of jobs in 2014/15 for young workers with average monthly wage of R6 500 or less**



- 4.15. The ETI did not appear to depress wages in jobs for 18 to 29 year olds earning less than R6500 per month. Median monthly wages for this group rose to R2 751 in 2014/15 from R2 643 in 2013/14.<sup>14</sup>
- 4.16. Wages obviously are affected by work experience and length of time in the job. To try and control for this, we compare wages of all 18 to 29 year olds, earning less than R6 500 a month on average. We find that those in ETI supported jobs on average have a higher income compared to those in non-ETI jobs. However, it is important to note that these differences could arise due to factors other than the ETI. To better understand the impact of the ETI on wages, it will be necessary to control for factors that might influence pay,

<sup>14</sup> Note this calculation of average wages is based on a full-time equivalent, grossing up pay received per job duration into a full month equivalent.

including the sectors in which jobs are created, the pay of ETI claiming firms versus non ETI claiming firms.

**Table 7 Monthly wages of all new jobs in 2014/15 for 18 – 29 year olds with average monthly wage of R6 500 or less**

	Average monthly wage	Median monthly wage
Non ETI supported job	2 340	2 122
ETI supported job	2 980	2 809
All new jobs within age and monthly wage range	2 560	2 429

*Note that all monthly wage calculations have been adjusted to full time monthly equivalent, which accounts for differences in job duration.*

- 4.17. **Job duration does not seem to have been adversely affected by the introduction of the ETI**, with median job duration for workers between 18 and 29 earning less than R6 500 per month on average remaining virtually unchanged at 241 days in 2014/15 from 243 days in 2013/14.
- 4.18. Since job duration is likely to be heavily influenced by whether the job is new or not, it is important to compare outcomes from ETI supported and non-ETI supported for new jobs for 18 to 29 year olds, earning less than an average of R6500 per month. The table below shows that job duration is very similar for these types of jobs.

**Table 8: Job duration of all new jobs in 2014/15 for 18 – 29 year olds with average monthly wage of R6500 or less**

	Average duration (days)	Median duration (days)
Non ETI supported job	170	143
ETI supported job	164	144
All new jobs within age and monthly wage range	168	144

- 4.19. However, further investigation into the impact of the ETI on job duration is required, as changes in the composition of employment growth by different firms, sectors and worker ages may influence the headline result and mask the impact of the ETI. Econometric techniques will need to be used to ascertain the relative contribution of these compositional forces and the ETI.
- 4.20. Although the ETI provides the same rand amount of support to workers earning between R2 000 and R4 000 a month, **the average ETI claim amount per job is highest for those workers earning between R3 000 to R3 999 per month**. The average ETI claim per job is R4 630 for 18 to 24 year olds earning between R3 000 and R4 000 pm, and R4 144 for the same age group earning between R2 000 and R3 000.
- 4.21. The difference in total claim amounts is linked to job duration – jobs for young workers earning between R3 000 to R3 999 per month tend to last the longest – although there are also important variations by age. The average job duration per job in the R3 000 to R4 000 monthly income category is 184 days for 18 to 24 year olds, compared to 175 days in the R2 000 to R3 000 category. For 25 to 29 year olds, those earning between R3 000 and R4 000 work for 193 days compared to 182 days in the R2 000 to R3 000 category.

### What types of firms are claiming the ETI?

- 4.22. In the two months in the 2013/14 tax year, 13 399 firms lodged at least one claim for the incentive. In the following tax year, 2014/2015, 32 368 firms lodged at least one claim.
- 4.23. A range of descriptive measures are outlined below. It is important to bear in mind that the reasons certain types of firms claim the ETI or do not claim the ETI will depend on the composition of the workforce, both existing and new hires, the fortunes of the sector as well as the individual firm, and the result of past decisions. As a result, care must be taken in making comparisons. In order to determine the relative importance of the ETI, econometric analysis is required to attempt to discern the relative importance of these factors.

### Analysis by firm size

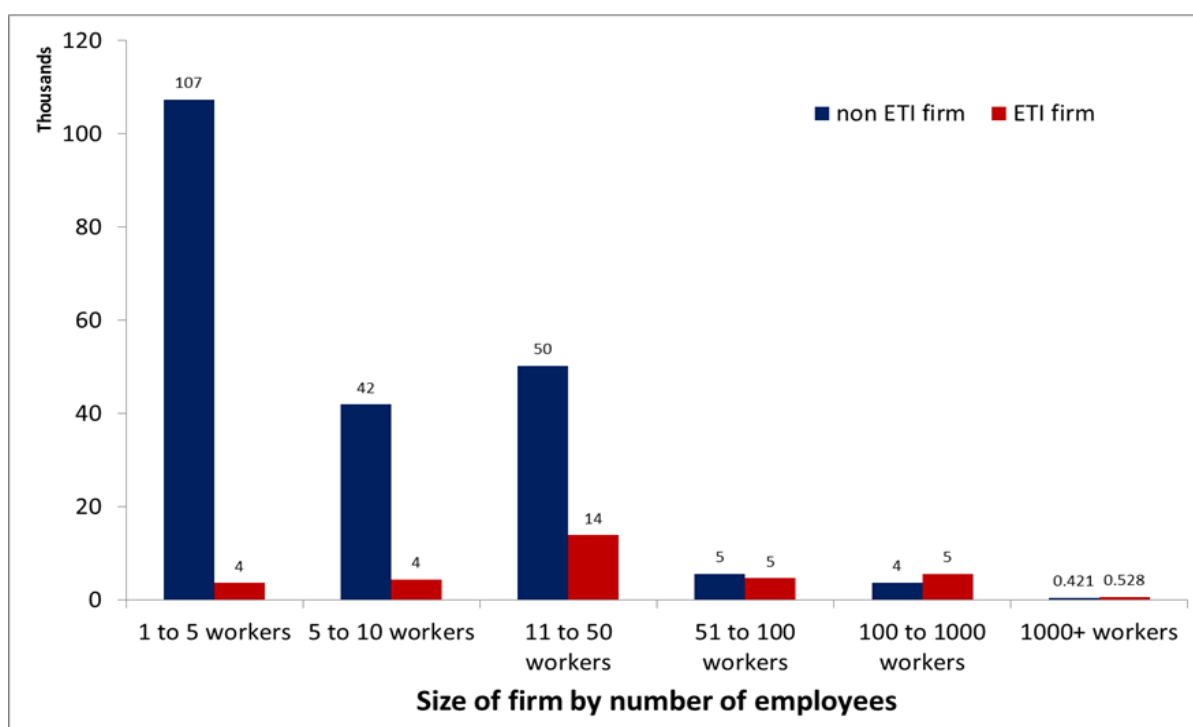
- 4.24. **Large firms dominate ETI claims**, both by number of workers and rand amounts claimed.

**Table 9: Analysis of ETI claims by firm size in 2014/15**

Firm Size (by size of workforce)	Number of firms claiming ETI	Number of employees ETI is claimed for across all firms	Average # ETI supported employees per firm	Per cent of all worker claims	Total ETI claim(R'm) across all firms	Per cent of all ETI rand claims
1 to 5 workers	3 560	5 695	1.60	1%	21	1%
5 to 10 workers	4 369	9 905	2.27	1%	39	2%
11 to 50 workers	13 839	67 430	4.87	10%	255	10%
51 to 100 workers	4 587	54 257	11.8	8%	192	8%
100 to 1000 workers	5 485	231 900	42.3	34%	742	30%
1000+ workers	528	317 231	601	46%	1 207	49%

- 4.25. **Large firms are more likely to claim the ETI.** Half (53 per cent) of those firms with more than 50 workers claim the ETI, compared to 22 per cent of medium sized firms (with 11 – 50 workers) and 5 per cent of smaller firms (10 workers or less).

**Figure 4: Distribution of firms by employee size and ETI claiming status in 2014/15**



- 4.26. In part, this is because large firms account for the largest number of young workers in the total workforce.<sup>15</sup> But large firms also claim for the ETI for a larger proportion of the ETI-eligible workforce than smaller firms.<sup>16</sup>

**Table 10: Workforce eligibility and ETI claims by firm size in 2014/15**

Firm Size (by size of workforce)	1 - 5 workers	5 - 10 workers	11 - 50 workers	51 - 100 workers	100 - 1000 workers	1000+ workers
Number of ETI-eligible jobs	55 139	82 372	422 808	260 135	893 128	1 254 559
Per cent of firm jobs eligible for ETI	12%	17%	22%	25%	26%	20%
Per cent of ETI eligible jobs supported by ETI	10%	12%	16%	21%	26%	25%

- 4.27. Average ETI claim per job varies across firm sizes. However, once varying job durations are taken into account, it becomes clear that the full-time equivalent of ETI claims declines as firm size increases (see table 11).
- 4.28. **Smaller firms make larger average ETI claims per job, once taking into account job duration.** This is driven in part by the fall in average monthly wages paid to young workers as firm size increases.
- 4.29. Across all firm sizes, wages of workers supported by the ETI are higher than the equivalent wages of eligible workers, who are not supported by the ETI. Further econometric investigation will be required to determine whether the ETI has had a meaningful impact on wages, or if this is due to compositional or other effects.

**Table 11: Size of ETI claims and wages by firm size in 2014/15**

Firm Size	1 - 5 workers	5 - 10 workers	11 - 50 workers	51 - 100 workers	100 - 1000 workers	1000+ workers
Average annual ETI claim per job	3 690	3 929	3 787	3 530	3 201	3 804
Average annual ETI claim per job adjusting for job duration	7 693	7 704	7 404	7 114	6 824	6 858
Average monthly wage of ETI eligible jobs, supported by ETI	3 652	3 552	3 347	3 140	3 141	2 884
Average monthly wage of ETI eligible jobs, not supported by ETI	3 580	3 434	3 229	2 973	2 855	2 478

*\*Claim amounts made equivalent to full time worker for one year. Note that full time equivalent is calculated using 365.25 days, as job duration measure is for a full calendar year, rather than working day adjusted.*

<sup>15</sup> This may be because larger firms are more able to absorb the costs and risks of hiring younger employees (e.g. training, sunk costs of choosing a poor candidate etc.)

<sup>16</sup> Large firms may have the infrastructure in place to make it easier to keep abreast of new incentives; they may also face a lower average cost of complying with an incentive per employee than smaller firms.



### Analysis by Industry

- 4.30. Note that industry classifications are not necessarily identical to Statistics SA definitions, as discussed earlier.
- 4.31. ETI take-up is linked to the number of eligible workers in the sector, how many of those workers the ETI is claimed against and average wages.
- 4.32. **The largest number of job claims (and the associated rand amounts) come from the financial and business services and trade sectors.** They have the largest share of eligible workforce and also a high take-up for eligible workers.

**Table 12: ETI claims by sector in 2014/15**

Industry	% of jobs eligible for ETI	% of ETI eligible jobs supported by ETI	Annual ETI claim amount (R millions)	Number of ETI supported jobs
Mining	6%	19%	19	5 491
Utilities	9%	21%	10	2 534
Transport	13%	18%	39	11 589
Unknown or errors	16%	7%	3	625
Manufacturing	19%	21%	298	83 852
Non Govt Community Services	20%	13%	101	25 525
Construction	23%	19%	60	19 297
Financial and business Services	24%	26%	807	244 503
Agriculture	35%	26%	259	96 667
Trade	38%	28%	712	157 600
Tourism	39%	28%	148	38 549
<b>Total</b>	<b>22%</b>	<b>23%</b>	<b>2 460</b>	<b>686 418</b>

- 4.33. **Interestingly, there are more manufacturing firms claiming the ETI than any other grouping,** although total claims per firm are smaller. Also notable is how many firms in financial services and trade are claiming the ETI.

**Table 13: Analysis of ETI claims by sector in 2014/15**

Industry	Number of ETI claiming Firms	% of firms in database claiming ETI	Average ETI claim per firm
Agriculture	3 041	18%	85 209
Mining	392	18%	47 320
Manufacturing	7 448	16%	40 077
Utilities	317	11%	31 235
Construction	1 728	13%	34 872
Trade	5 532	18%	128 703
Transport	1 014	13%	38 350
Tourism	2 246	26%	65 804
Financial Services	7 111	11%	113 450
Non Govt Community Services	3 201	10%	31 401
Unknown	318	3%	10 243
<b>Total</b>	<b>32 368</b>	<b>13%</b>	<b>75 879</b>

4.34. This seems to be due to:

- **The number of firms in these sectors.** Financial and other services sector accounts for 57 per cent of all firms, whereas manufacturing firms for almost 20 per cent.
- **Active small and medium sized firms in manufacturing.** Almost 64 per cent of ETI claiming firms in manufacturing had less than 50 employees. Equally, in financial and other services, 94 per cent of firms employ less than 50 employees, and these firms comprised 70 per cent of all ETI claiming firms in the sector.

**Analysis by Industry and firm size**

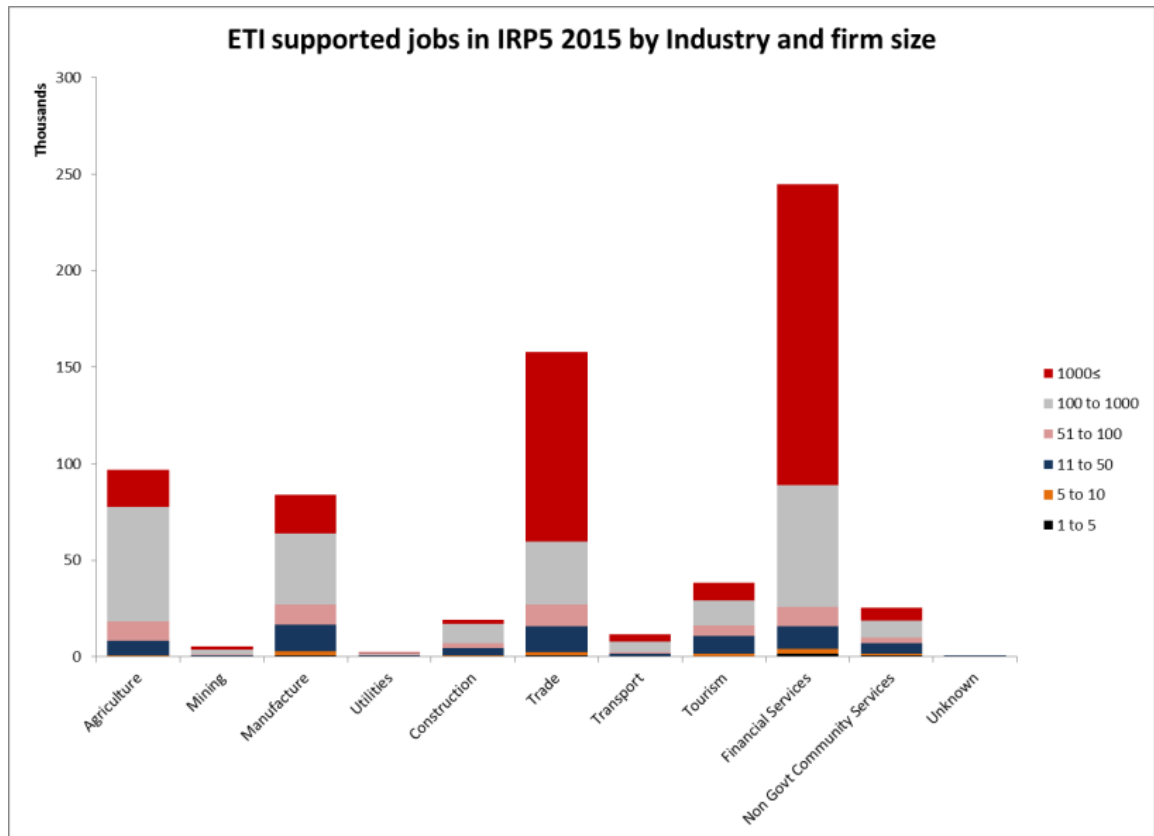
4.35. **Large firms dominate incentive take-up across sectors.** In all but three industries, the proportion of very large firms claiming is the highest. This is because very large firms have the most workers eligible for the ETI, as shown in Annex 1 and above.

4.36. **There are important differences across firm size in sectors' willingness to access the incentive.** Larger manufacturing firms are less likely than larger firms in the trade sector to claim the ETI for eligible workers – only 5 per cent of ETI eligible jobs are claimed for compared to 10 per cent for trade. Mining, utilities and transport sector have fewer eligible workers (due to higher average wages)

**Table 14: Proportion of total firms claiming ETI by sector and firm size in 2014/15**

Industry	Firm size					
	1 to 5	5 to 10	11 to 50	51 to 100	100 to 1000	1000 +
Agriculture	3%	10%	20%	45%	68%	84%
Mining	2%	8%	18%	30%	51%	43%
Manufacture	3%	9%	21%	46%	62%	67%
Utilities	3%	10%	20%	45%	53%	23%
Construction	3%	8%	19%	39%	60%	70%
Trade	4%	11%	26%	58%	74%	74%
Transport	3%	8%	18%	34%	61%	51%
Tourism	6%	16%	35%	69%	83%	90%
Financial Services	3%	10%	21%	42%	57%	68%
Non Govt Community Services	3%	8%	18%	35%	51%	53%

Figure 5: Distribution of ETI supported jobs by firm size and industry in 2014/15



4.37. The ETI does not seem to have caused job losses in firms qualifying for the ETI, either in the workforce generally or in ETI eligible. The table below shows that employment growth in firms claiming the ETI in 2014/15 was more positive than non-ETI claiming firms. To understand if the ETI supported employment growth in these firms, or whether this is due to faster growing firms claiming the ETI will require econometric analysis. The same can be said for displacement analysis.

Table 15: Average annual growth in employment, as measured by number of jobs created, by ETI claiming or non-ETI claiming firms in 2014/15

	Earning under R6500				All	
	18 to 30 year olds		30 to 35 year olds		All	
	2013/14	2014/15	2013/14	2014/15	2013/14	2014/15
All firms	-11.2	-9.80	-0.98	-1.75	2.41	4.19
Firms who made no ETI claims	-11.7	-17.3	-0.13	-2.35	5.05	2.48
Firms with ETI in 2014/15	-0.39	13.7	2.90	0.36	11.5	15.0

## Labour brokers

- 4.38. A key concern raised in the original design of the ETI was the role that labour brokers might play. Recent amendments to the Labour Relations Act have reduced the differences between labour brokers and regular employers. However, the concerns raised merit separate consideration.
- 4.39. The analysis below is based on a classification system from Statistics SA. Unlike other sector classifications, where employers self-classify, the labour broker designation is assigned. There may well be under-counting of these labour brokers.
- 4.40. According to this indicator, there are approximately 626 labour brokers, of which 257 have claimed the ETI in 2014/15.

**Table 16: Analysis of labour broker indicator and ETI claims in 2014/15**

Labour broker firms	Labour brokers claiming ETI	% Labour broker firms claiming ETI	# jobs in identified labour broker firms	# ETI eligible jobs in identified labour broker firms	# ETI jobs in identified labour broker firms	Average # jobs per identified labour broker
626	257	41%	629 743	269 185	74 583	290

- 4.41. In the labour broker sector, 43 per cent of the labour force is eligible for the ETI, higher than any other sector. The take-up rate is also relatively high at 28%, on par with tourism and trade.
- 4.42. In contrast to the other sectors with a high share of the workforce eligible for the ETI and a reasonably high take-up rate, the labour broker sector only made up 9 per cent of the total ETI claim amount. Labour brokers made up only 11 per cent of the ETI jobs in the individual employee certificate data.
- 4.43. In ETI supported jobs, the average job duration is 38 days longer in labour broking jobs than non-labour broking jobs. Econometric analysis is required to determine the relative importance of the type of employer, the ETI, age of worker etc. in determining these outcomes.

## 5. ONGOING WORK

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- 5.1. Further analyses of the statistics are required. As mentioned above, job duration, wages, employment levels are affected by a wide range of factors, and simple comparisons between workers supported by the ETI or not, and comparisons between ETI claiming firms and non ETI claiming firms, could result in over- or under-attributing causality to the ETI.
- 5.2. In addition, effort must be made to determine whether the jobs supported are indeed new jobs, jobs saved or jobs that would have been created anyway.
- 5.3. Given the difficulty in ascertaining positive or negative impacts with certainty, a range of inputs should be considered in order to inform debate.